

Hill-Rom Holdings, Inc.
Form 10-K
November 15, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

☒ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended September 30, 2012

OR

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ____ to ____

Commission File No. 1-6651

HILL-ROM HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Indiana
(State or other jurisdiction of incorporation or
organization)

35-1160484
(I.R.S. Employer Identification No.)

1069 State Route 46 East

Batesville, Indiana
(Address of principal executive offices)

47006-8835
(Zip Code)

Registrant's telephone number, including area code: (812) 934-7777
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class
Common Stock, without par value

Name of Each Exchange on Which Registered
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ R

No ☐ £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ R

No ☐ £

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒ £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer ☐ R

Accelerated filer ☐ £

Non-accelerated filer ☐ £

Smaller reporting company ☒ £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ £

No ☒ R

The aggregate market value of the registrant's voting common equity, held by non-affiliates of the registrant, was approximately \$2.0 billion, based on the closing sales price of \$33.41 per share as of March 31, 2012 (the last business day of the registrant's most recently completed second fiscal quarter). There is no non-voting common equity held by non-affiliates.

The registrant had 60,808,647 shares of its common stock, without par value, outstanding as of November 6, 2012.

Documents incorporated by reference.

Certain portions of the registrant's definitive Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held on March 8, 2013 are incorporated by reference into Part III of this Annual Report on Form 10-K.

HILL-ROM HOLDINGS, INC.

Annual Report on Form 10-K

For the Fiscal Year Ended September 30, 2012

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PART I

DISCLOSURE REGARDING FORWARD LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K contain forward-looking statements within the meanings of the Private Securities Litigation Reform Act of 1995 regarding our future plans, objectives, beliefs, expectations, representations and projections. Forward-looking statements are not guarantees of future performance, and our actual results could differ materially from those set forth in any forward-looking statements. Factors that could cause actual results to differ from forward-looking statements include but are not limited to the factors discussed under the heading “Risk Factors” in this Annual Report on Form 10-K. We assume no obligation to update or revise any forward-looking statements.

Item 1. BUSINESS

General

Hill-Rom Holdings, Inc. (the “Company,” “Hill-Rom,” “we,” “us,” or “our”) (formerly known as Hillenbrand Industries, Inc.) was incorporated on August 7, 1969 in the State of Indiana and is headquartered in Batesville, Indiana. We are a leading worldwide manufacturer and provider of medical technologies and related services for the health care industry, including patient support systems, safe mobility and handling solutions, non-invasive therapeutic products for a variety of acute and chronic medical conditions, medical equipment rentals, surgical products and information technology solutions. Our comprehensive product and service offerings are used by health care providers across the health care continuum and around the world in hospitals, extended care facilities and home care settings, to enhance the safety and quality of patient care. In February 2012, we acquired Völker, a German manufacturer and distributor of patient support surfaces. In July 2012, we acquired Aspen Surgical, a U.S.-based manufacturer of surgical products including the Bard-Parker® line of blades and scalpels.

Segment Information

We operate and manage our business within three reportable segments, each of which is generally aligned by region or product type. The segments are as follows:

North America - sells and rents our patient support and near-patient technologies and services, as well as our health information technology solutions, in the U.S. and Canada.

Surgical and Respiratory Care - sells and rents our surgical and respiratory care products in all settings.

International - sells and rents similar products as our North America segment in regions outside of the U.S. and Canada

Net revenues, segment profitability and other measures of segment reporting for each reporting segment are set forth in Note 11 of Notes to Consolidated Financial Statements included under Part II, Item 8 of this Form 10-K. No single customer accounts for more than 10 percent of our revenue in any segment.

Products and Services

We have extensive distribution capabilities and broad reach across all health care settings. We sell and rent primarily to acute and extended care health care facilities worldwide through both a direct sales force and distributors, but we also sell products to patients in the home. Through our network of approximately 170 North American and 34

international service centers, and approximately 1,200 North American and 340 international service professionals, we are able to provide technical support and services and rapidly deliver our products to customers on an as-needed basis, providing our customers flexibility to purchase or rent our products. This extensive network is critical to serving our customers and securing contracts with Group Purchasing Organizations (“GPOs”) and integrated delivery networks (“IDNs”).

Our products and services are outlined below. Except where noted, we generally sell products and services and rent from each of our product categories in all of our business segments.

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Patient Support Systems. Our innovative patient support systems include a variety of bed systems, along with integrated and non-integrated therapeutic bed surfaces, that are rented and sold by our North America and International segments. These patient support systems can be designed for use in high, mid and low acuity settings, depending on the specific design options. Our advanced patient support systems can also provide patient data reporting (e.g., weight and therapy statistics); patient safety alarms and caregiver alerts concerning such things as bed exit, bed height, patient positioning; wound healing and prevention; pulmonary treatment; point of care controls; and patient turn assist and upright positioning. Approximately 53, 51 and 49 percent of our revenues during fiscal 2012, 2011 and 2010, were derived from patient support systems.

Non-Invasive Therapeutic Products. We rent and sell non-invasive therapeutic products and surfaces designed for the prevention and treatment of a variety of acute and chronic medical conditions, including pulmonary, wound and bariatric conditions. These products are rented and sold by our North America and International segments, primarily in the U.S., Canada and Europe, with the exception of our respiratory care products. Our respiratory care products are sold by our Surgical and Respiratory Care and International segments. Approximately 25, 29 and 30 percent of our revenues were derived from these therapeutic products in fiscal 2012, 2011 and 2010.

Medical Equipment Management and Contract Services. We provide rentals and health care provider asset management services for a wide variety of moveable medical equipment, also known as MME, such as ventilators, defibrillators, intravenous pumps and patient monitoring equipment in our North America segment. In addition, we also sell equipment service contracts for our capital equipment, primarily in the U.S. Approximately 8, 9 and 10 percent of our revenues were derived from these products and services in fiscal 2012, 2011 and 2010.

Patient Environment and Mobilization Solutions. These products include mobility solutions (such as lifts and other devices used to safely move patients), architectural products (such as headwalls and power columns) and health care furniture. Patient environment and mobility solutions products are sold by our North America and International segments, primarily to acute and extended care health care facilities worldwide.

Health Information Technology Solutions. We also develop and market a variety of communications technologies and software solutions. These are designed to improve patient safety and efficiency at the point of care by, among other things, enabling patient-to-staff and staff-to-staff communications, and aggregating and delivering patient data. These products are sold mainly to our North America customers.

Surgical Products. We offer a range of positioning devices for use in shoulder, hip, spinal and lithotomy surgeries as well as platform-neutral positioning accessories for nearly every model of operating room table. In addition, via our acquisition of Aspen Surgical, we offer operating room disposable products such as scalpel and blade and handle systems, disposable scalpels, skin markers and other disposable products. These products are sold by our Surgical and Respiratory Care segment.

Raw Materials

Principal materials used in our products include carbon steel, aluminum, stainless steel, wood and laminates, petroleum based products, such as foams and plastics, and other materials, substantially all of which are available from several sources. Motors and electronic controls for electrically operated beds and certain other components are purchased from one or more manufacturers.

Prices fluctuate for raw materials and sub-assemblies used in our products based on a number of factors beyond our control. Specifically, over the past several years, the fluctuating prices of certain raw materials, including metals, fuel, plastics and other petroleum based products in particular, and fuel related delivery costs, had a direct effect on our profitability. Although we generally have not engaged in hedging transactions with respect to raw material

purchases, we have entered into fixed price supply contracts at times.

Most of our extended contracts with hospital GPOs and other customers for the sale of products in North America permit us to institute annual list price increases, although we may not be able to raise prices sufficiently to offset all raw material cost inflation.

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Competition

In all our business segments, we compete on the basis of clinical expertise and resulting product clinical utility and ability to produce favorable outcomes, as well as value, quality, customer service, innovation and breadth and depth of product offerings. As our business segments generally sell products and services across our product categories, we evaluate our competition based on our product categories, rather than our business segments.

The following table displays our significant competitors with respect to each product category:

Product Categories	Competitors
Patient Support Systems	Stryker Corporation ArjoHuntleigh (Division of Getinge AB) Linet Stieglmeyer Invacare Joerns Healthcare
Non-Invasive Therapeutic Products	SIZEWise Rentals, LLC RecoverCare, LLC ArjoHuntleigh (Division of Getinge AB)
Medical Equipment Management and Contract Services	Universal Hospital Services, Inc. Freedom Medical, Inc.
Patient Environment and Mobility Solutions	ArjoHuntleigh (Division of Getinge AB) Guldmann Amico Modular Services Herman Miller Healthcare
Health Information Technology Solutions	Rauland-Borg Corporation Ascom Holding West-Com Nurse Call Systems, Inc. Intego Systems, Inc. SimplexGrinnell LP Jeron Electronic Systems, Inc.
Surgical Products	MizuhoOSI Tenet Medical (part of Smith & Nephew) Schuerch Medical Action Medical Myco Medical Swann-Morton

Additionally, we compete with a large number of smaller and regional manufacturers.

Regulatory Matters

FDA Regulation. We design, manufacture, install and distribute medical devices that are regulated by the Food and Drug Administration (“FDA”) in the U.S. and similar agencies in other countries. The regulations and standards of these agencies evolve over time and require us to make changes in our manufacturing processes and quality systems to remain in compliance. The FDA’s Quality System regulations and the regulatory equivalents under the Medical Device Directive in the European Union set forth standards for our product design and manufacturing processes, require the maintenance of certain records and provide for inspections of our facilities. From time to time, the FDA performs routine inspections of our facilities and may inform us of certain deficiencies in our processes or facilities. We currently have an outstanding FDA warning letter for our Batesville facility that was received in 2012. See Item 1A. “Risk Factors” for additional information. In addition, there are also certain state and local government requirements that must be complied with in the manufacturing and marketing of our products.

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Environmental. We are subject to a variety of federal, state, local and foreign environmental laws and regulations relating to environmental and health and safety concerns, including the handling, storage, discharge and disposal of hazardous materials used in or derived from our manufacturing processes. When necessary, we provide for reserves in our financial statements for environmental matters. Based on the nature and volume of materials involved regarding onsite impacts and other currently known information, we do not expect the remediation costs for any onsite environmental issues in which we are currently involved to exceed \$2 million.

Health Care Regulations. The health care industry continues to undergo significant change. In March 2010, comprehensive health care reform legislation was signed into law through the passage of the Patient Protection and Affordable Health Care Act (H.R. 3590) and the Health Care and Education Reconciliation Act (H.R. 4872). In addition to health care reform, Medicare, Medicaid and managed care organizations, such as health maintenance organizations and preferred provider organizations, traditional indemnity insurers and third-party administrators are under increasing pressure to control costs and limit utilization, while improving quality and health care outcomes. These objectives are being advanced through a variety of reform initiatives including: value based purchasing, competitive bidding programs, etc. The potential impact of these changes to our business is discussed further in Item 1A. Risk Factors and Part II, Item 7-Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Annual Report on Form 10-K.

Product Development

Most of our products and product improvements have been developed internally. We maintain close working relationships with various medical professionals who assist in product research and development. New and improved products play a critical role in our sales growth. We continue to place emphasis on the development of proprietary products and product improvements to complement and expand our existing product lines. Our significant research and development activities are located in Batesville, Indiana; Cary, North Carolina; Lulea, Sweden; Montpelier and Pluvigner, France; and Singapore.

Research and development is expensed as incurred. Research and development expense for the fiscal years ended September 30, 2012, 2011 and 2010, was \$66.9 million, \$63.8 million and \$58.3 million.

In addition, certain software development technology costs are capitalized as intangibles and are amortized over a period of three to five years once the software is ready for its intended use. The amounts capitalized during fiscal years 2012, 2011 and 2010 were approximately \$2.3 million, \$2.1 million and \$4.8 million.

Patents and Trademarks

We own, and from time-to-time license, a number of patents on our products and manufacturing processes, but we do not believe any single patent or related group of patents is of material significance to our business as a whole. We also own a number of trademarks and service marks relating to our products and product services. Except for the marks "Hill-Rom" and "Bard-Parker®" we do not believe any single trademark or service mark is of material significance to our business as a whole.

Foreign Operations and Export Sales

Information about our foreign operations is set forth in tables relating to geographic information in Note 11 of Notes to Consolidated Financial Statements, included herein under Part II, Item 8 - Financial Statements and Supplementary Data.

Employees

At September 30, 2012, we had approximately 6,950 employees worldwide. Approximately 240 of our employees work in our logistics and manufacturing operations in the U.S. under collective bargaining agreements. We are also subject to various collective bargaining arrangements or national agreements outside the U.S. The collective bargaining agreement at our primary U.S. manufacturing facility will expire in January 2013, and we are currently in negotiations to enter a new agreement. We have not experienced a work stoppage in the U.S. in over 40 years, and we believe that our employee relations are satisfactory.

Executive Officers

The following sets forth certain information regarding our executive officers. The term of office for each executive officer expires on the date his or her successor is chosen and qualified. No director or executive officer has a “family relationship” with any other director or executive officer of the Company, as that term is defined for purposes of this disclosure requirement. There is no understanding between any executive officer and any other person pursuant to which the executive officer was selected.

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John J. Greisch, 57, was elected President and Chief Executive Officer of Hill-Rom in January 2010. Mr. Greisch was most recently President, International Operations for Baxter International, Inc., a position he held since 2006. Prior to this, he held several other positions with Baxter, serving as Baxter's Chief Financial Officer and as President of Baxter's BioScience division.

Mark Guinan, 50, was elected as our Senior Vice President and Chief Financial Officer in December 2010. Mr. Guinan previously held a variety of positions with Johnson & Johnson, most recently as the Chief Procurement Officer since October 2009. Prior to that, he served as Vice President - Finance, Global Pharmaceutical Group, and Vice President - Finance, Global R&D and Business Operations.

Andreas Frank, 36, joined Hill-Rom as Senior Vice President Corporate Development and Strategy in October 2011. Before joining Hill-Rom, Mr. Frank was Director Corporate Development at Danaher Corporation. Previously he worked in the Corporate Finance and Strategy practice at the consulting firm McKinsey & Company.

Alejandro Infante Saracho, 51, was elected Senior Vice President and President International for Hill-Rom effective May 2010. Before joining the Company, he spent more than 25 years with Hospira and Abbott serving in a number of executive positions, including President of the Americas, General Manager International Operations and Regional Director Latin America for Hospira.

Scott Jeffers, 42, was elected Senior Vice President, Global Supply Chain for Hill-Rom in September 2010. Before joining Hill-Rom, he held a number of senior operational positions in GE Healthcare including General Manager of Global Lean Enterprise; General Manager of Global Supply Chain for Life Support Solutions; and General Manager of Global Sourcing & Operational Excellence for the Clinical Systems business. Prior to joining GE, Mr. Jeffers was an officer in the United States Air Force.

Richard G. Keller, 51, was elected Vice President, Controller and Chief Accounting Officer of the Company effective August 2005. He had served as Executive Director - Controller of Hill-Rom since March 2004.

Brian Lawrence, 42, was elected Senior Vice President and Chief Technology Officer for Hill-Rom effective December, 2010. Mr. Lawrence joined Hill-Rom from GE Healthcare, where he was Chief Technology Officer for Life Support Solutions and held a number of other leadership and innovation positions in GE's Global Research Center.

Susan R. Lichtenstein, 55, was elected Senior Vice President, Corporate Affairs, Chief Legal Officer and Secretary for Hill-Rom effective May 2010. Previously she was Corporate Vice President and General Counsel at Baxter International, where she was responsible for global legal matters, corporate communications and government affairs.

Michael Macek, 40, was elected Treasurer in March 2011. Mr. Macek held the position of Executive Director, Treasury for Hill-Rom since 2008, and a series of financial positions with Hill-Rom since 2005.

Michael Murphy, 48, was elected as the Senior Vice President, Quality Assurance/Regulatory Affairs effective July 11, 2012. Mr. Murphy held the position of Vice President Quality Assurance & Regulatory Affairs for Hill-Rom since May 2011. Before joining Hill-Rom, he was at Baxter International, where he served as Vice President of Quality for Baxter's EMEA division, headquartered in Zurich, Switzerland, and as Vice President-Corporate Quality. Previously he held numerous QA/RA leadership roles at Boston Scientific and at Harmac Medical Products.

Michael Oliver, 59, was appointed Senior Vice President and Chief Human Resources Officer for Hill-Rom in March 2011. Prior to joining Hill-Rom, Mr. Oliver was the Vice President and Chief Human Resources Officer for Pactiv Corporation and from 1997 to 2008 he was Senior Vice President for Brady Corporation.

Gregory Pritchard, 54, was named Senior Vice President and President, Surgical and Respiratory Care in July 2012. Previously, Mr. Pritchard served as President and Chief Executive Officer of Aspen Surgical. He has more than 25 years of experience in the health care industry, serving in management positions at American Hospital Supply, Baxter, Allegiance Healthcare and Cardinal Health.

Blair A. (Andy) Rieth, Jr., 54, was hired as Vice President of Investor Relations of the Company in June 2006. Prior to joining us, he was the Investor Relations Officer of Guidant Corporation from 2000 to 2006.

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Alton Shader, 39, was elected Senior Vice President and President North America of the Company in July 2012. He had served as Senior Vice President and President, Post-Acute Care with Hill-Rom since July 2011. Before joining Hill-Rom, Mr. Shader was General Manager of Renal at Baxter International. Previously, he served as General Manager for Baxter Ireland and held senior marketing positions in Baxter's operations in Zurich and in California.

Availability of Reports and Other Information

Our website is www.Hill-Rom.com. We make available on this website, free of charge, access to our annual, quarterly and current reports and other documents we file with, or furnish to, the Securities and Exchange Commission ("SEC") as soon as practicable after such reports or documents are filed or furnished. We also make available on our website position specifications for the Chairman, members of the Board of Directors and the Chief Executive Officer, our Code of Ethical Business Conduct (and any amendments or waivers), the Corporate Governance Standards of our Board of Directors and the charters of each of the standing committees of the Board of Directors. All of these documents are also available to shareholders in print upon request.

All reports filed with the SEC are also available via the SEC website, www.sec.gov, or may be read and copied at the SEC Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

Item 1A. RISK FACTORS

Our business involves risks. The following information about these risks should be considered carefully together with the other information contained herein. The risks described below are not the only risks we face. Additional risks not currently known or deemed immaterial also may result in adverse effects on our business.

We face significant uncertainty in the industry due to government health care reform, changes in Medicare, Medicaid and other governmental medical program reimbursements, and we cannot predict how these reforms will impact our operating results.

In March 2010, the U.S. Congress adopted and President Obama signed into law comprehensive health care reform legislation through the passage of the Patient Protection and Affordable Health Care Act (H.R. 3590) and the Health Care and Education Reconciliation Act (H.R. 4872). We cannot predict with certainty what healthcare initiatives, if any, will be implemented at the state level, or what the ultimate effect of federal health care reform or any future legislation or regulation will have on us. In addition, Medicare, Medicaid and managed care organizations are increasing pressure to both control health care utilization and to limit reimbursement. Changes in reimbursement programs or their regulations, including retroactive and prospective rate and coverage criteria changes, competitive bidding for certain products and services, and other changes intended to reduce the program expenditures, could adversely affect the portions of our businesses that are dependent on third-party reimbursement. The impact of the above mentioned items could have a material adverse impact on our business, results of operations and cash flows.

Failure by us or our suppliers to comply with the FDA regulations and similar foreign regulations applicable to the products we manufacture or distribute could expose us to enforcement actions or other adverse consequences.

We design, manufacture, install and distribute medical devices that are regulated by the FDA in the U.S. and similar agencies in other countries. Failure to comply with applicable regulations could result in future product recalls, injunctions preventing the shipment of products or other enforcement actions that could have a material adverse effect on our revenues and profitability. On March 6, 2012, we received a warning letter from the FDA following an inspection by the FDA at our Batesville, Indiana production facilities. At the close of the inspection, the FDA issued a Form 483 identifying certain observed instances of non-compliance with FDA regulations. The Warning letter

reiterated the items raised in the Form 483 and also identified certain instances of non-compliance with FDA requirements regarding our advertising and promotion of certain products. Although remediation efforts are underway, we cannot assure you if or when we will address all matters in the warning letter to the FDA's satisfaction. Additionally, certain of our suppliers are subject to FDA regulations, and the failure of these suppliers to comply with regulations could adversely affect us; as regulatory actions taken by the FDA against those manufacturers can result in product shortages, recalls or modifications.

We could be subject to substantial fines or damages and possible exclusion from participation in federal health care programs if we fail to comply with the laws and regulations applicable to our business.

We are subject to stringent laws and regulations at both the federal and state levels governing the participation of durable medical equipment suppliers in federal and state health care programs. In addition, we recently entered into a five-year Corporate Integrity Agreement with the U.S. Federal government, which imposes on us additional contractual obligations.

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From time to time, the government seeks additional information related to our claims submissions, and in some instances government contractors perform audits of payments made to us under Medicare, Medicaid, and other federal health care programs. On occasion, these reviews identify overpayments for which we submit refunds. At other times, our own internal audits identify the need to refund payments. We anticipate that the frequency and intensity of the government audits and review processes will intensify in the future, due to increased resources allocated to these activities at both the federal and state Medicaid level, and greater sophistication in data review techniques.

If we are deemed to have violated these laws and regulations, or are found to have violated our Corporate Integrity Agreement, we could be subject to substantial fines or damages and possible exclusion from participation in federal health care programs such as Medicare and Medicaid. While we believe that our practices materially comply with applicable state and federal requirements, the requirements may be interpreted in a manner inconsistent with our interpretation. Failure to comply with applicable laws and regulations, even if inadvertent, could have a material adverse impact on our business.

We could be materially impacted if so-called “sequestration” goes into effect and federal spending reductions are implemented, or if Congress takes additional action to avoid sequestration being triggered.

The 2011 Budget Control Act called for a 12-member debt panel to develop and pass at least \$1.2 trillion in federal spending cuts over 10 years. However, since the panel failed to reach an agreement, the law, unless changed by Congress, will trigger billions of dollars in automatic cuts known as “sequestration” beginning in February 2013. At this time, we are uncertain if sequestration will occur or if Congress will change the law. Should sequestration occur, we are unable to quantify whether the impact upon us will be material. Moreover, if Congress does change the law and sequestration does not occur, we cannot predict the outcome of those changes or its impact on our results.

We participate in a highly competitive industry that is subject to the risk of declining demand and pricing pressures, which could adversely affect our operating results.

Demand for our products and services depend in large part on overall demand in the health care market. Further, the competitive pressures in our industry could cause us to lose market share unless we increase our expenditures or reduce our prices, which would adversely impact our operating results. The nature of this highly competitive marketplace demands that we successfully introduce new products into the market in a cost effective manner (more fully detailed below). These factors, along with others, may result in significant shifts in market share among the industry's major participants, including us. Accordingly, if we are unable to effectively differentiate ourselves from our competitors then our market share, sales and profitability could be adversely impacted through lower volume or decreased prices.

Our future financial performance will depend in part on the successful introduction of new products into the marketplace on a cost-effective basis.

Our future financial performance will depend in part on our ability to influence, anticipate, identify and respond to changing consumer preferences and needs. We can provide no assurances that our new products will achieve the same degree of success as in the past. We may not correctly anticipate or identify trends in consumer preferences or needs, or may identify them later than competitors do. In addition, difficulties in manufacturing or in obtaining regulatory approvals may delay or prohibit introduction of new products into the marketplace. Further, we may not be able to develop and produce new products at a cost that allows us to meet our goals for profitability. Warranty claims and service costs relating to our products may be greater than anticipated, and we may be required to devote significant resources to address any quality issues associated with our new products, which could reduce the resources available for further new product development and other matters. In addition, the introduction of new products may also cause customers to defer purchases of existing products.

Failure to successfully introduce new products on a cost-effective basis, or delays in customer purchasing decisions related to the evaluation of new products, could cause us to lose market share and could materially adversely affect our business, financial condition, results of operations and cash flow.

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Further adverse developments in general domestic and worldwide economic conditions and instability and disruption of credit markets could have further adverse effects on our operating results, financial condition, or liquidity.

We are subject to risks arising from adverse changes in general domestic and global economic conditions, including recession or economic slowdown and disruption of domestic and international credit markets. The credit and capital markets experienced extreme volatility and disruption over the past several years, leading to periods of recessionary conditions and depressed levels of consumer and commercial spending. These recessionary conditions caused customers to reduce, modify, delay or cancel plans to purchase our products and services. If our customers continue to reduce investments in capital expenditures or utilize their limited capital funds to invest in products that we do not offer or that do not comprise a large percentage of our product portfolio, it could negatively impact our operating results. Moreover, even if our revenues remain constant, our profitability could decline if there is a shift to sales of product mix or geographic locations with less favorable margins. If worldwide economic conditions worsen, we would expect our customers to scrutinize costs resulting from pressures on operating margin due to rising supply costs, reduced investment income and philanthropic giving, increased interest expense, reimbursement pressure, reduced elective healthcare spending and uncompensated care.

The assets in our pension plans are subject to market disruptions. In addition our pension plans are underfunded.

Our pension plans invest in a variety of equity and debt securities, including securities that have been adversely affected by the disruption in the credit and capital markets. Our pension plans were underfunded at September 30, 2012 by approximately \$81 million. Market volatility and disruption could cause further declines in asset values or fluctuations in assumptions used to value our liability and expenses. If this occurs, we may need to make additional pension plan contributions and our pension expense in future years may increase.

Our business is significantly dependent on major contracts with GPOs and IDNs.

A majority of our North American hospital sales and rentals are made pursuant to contracts with hospital GPOs. At any given time, we are typically at various stages of responding to bids and negotiating and renewing expiring GPO agreements. Failure to be included in certain of these agreements could have a material adverse effect on our business, including capital and rental revenues.

The contracting practices of GPOs change frequently to meet the needs of their member hospitals. GPOs often offer committed programs or standardization programs, where one supplier may be chosen to serve designated members that elect to participate in the program. Participation by us in such programs may require increased discounting or restrictions on our ability to raise prices, and failure to participate or to be selected for participation in such programs may result in a reduction of sales to the member hospitals. In addition, the industry is showing an increased focus on contracting directly with health systems or IDNs (which typically represents influential members and owners of GPOs). IDNs and health systems often make key purchasing decisions and have influence over the GPO's contract decisions. This presents an opportunity to have more contracts directly with customers, but these customers may request additional discounts or other enhancements.

Increased prices for, or unavailability of, raw materials or sub-assemblies used in our products could adversely affect profitability or revenues. In particular, our results of operations have been and could be further adversely affected by high prices for metals, fuel, plastics and other petroleum based products. We also procure several raw materials and sub-assemblies from single suppliers.

Our profitability is affected by the prices of the raw materials and sub-assemblies used in the manufacture of our products. These prices may fluctuate based on a number of factors beyond our control, including changes in supply and demand, general economic conditions, labor costs, fuel related delivery costs, competition, import duties, tariffs,

currency exchange rates, and government regulation. Significant increases in the prices of raw materials or sub-assemblies that cannot be recovered through increases in the prices of our products could adversely affect our results of operations. There can be no assurance that the market place will support higher prices or that such prices and productivity gains will fully offset any commodity price increases in the future, especially in light of the increased pricing pressures as discussed above. We generally have not engaged in hedging transactions with respect to raw material purchases, but do enter into fixed price supply contracts at times. Future decisions not to engage in hedging transactions or ineffective hedging transactions may result in increased price volatility, potentially adversely impacting our profitability.

Our dependency upon regular deliveries of supplies from particular suppliers means that interruptions or stoppages in such deliveries could adversely affect our operations until arrangements with alternate suppliers could be made. Several of the raw materials and sub-assemblies used in the manufacture of our products currently are procured only from a single source. If any of these sole-source suppliers were unable or unwilling to deliver these materials for an extended period of time we may not be able to manufacture one or more products for a period of time, and our business could suffer. We may not be able to find acceptable alternatives, and any such alternatives could result in increased costs. Difficulties in the credit markets could adversely affect our suppliers' access to capital and therefore their ability to continue to provide an adequate supply of the materials we use in our products.

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The majority of our products are manufactured at a single facility or location, and the loss of one or more of these facilities or locations could prevent us from manufacturing all the various products we sell.

We manufacture the majority of our products in only a single facility or location. If an event occurred that resulted in material damage to one or more of these manufacturing facilities or we lacked sufficient labor to fully operate the facility, we may be unable to transfer the manufacture of the relevant products to another facility or location in a cost-effective or timely manner, if at all. This potential inability to transfer production could occur for a number of reasons, including but not limited to a lack of necessary relevant manufacturing capability at another facility, or the regulatory requirements of the FDA or other governmental regulatory bodies. Such an event would materially negatively impact our financial condition, results of operation and cash flows.

Our international sales and operations are subject to risks and uncertainties that vary by country which could have a material adverse effect on our business and/or results of operations.

International sales accounted for approximately 34 percent of our net sales in fiscal 2012. We anticipate that international sales will continue to represent a significant portion of our total sales in the future. In addition, we have multiple manufacturing facilities and third-party suppliers that are located outside of the U.S. As a result, our international sales, as well as our sales in the U.S. of products produced or sourced internationally, are subject to risks and uncertainties that can vary by country, such as political instability, economic conditions, foreign currency exchange rate fluctuations, changes in tax laws, regulatory and reimbursement programs and policies, and the protection of intellectual property rights. In addition, our collections of international receivables are subject to economic pressures and the actions of some governmental authorities to initiate various austerity measures to control healthcare and other governmental spending.

Unfavorable outcomes related to uncertain tax positions could result in significant tax liabilities.

We have recorded tax benefits related to various uncertain tax positions taken or expected to be taken in a tax return. While we believe our positions are appropriate, the Internal Revenue Service ("IRS"), state or foreign tax authorities could disagree with our positions, resulting in a significant tax payment.

We are involved on an ongoing basis in claims, lawsuits and governmental proceedings relating to our operations, as well as product liability or other liability claims that could expose us to adverse judgments or could affect the sales of our products.

We are involved in the design, manufacture and sale of health care products, which face an inherent risk of exposure to product liability claims if our products are alleged to have caused injury or are found to be unsuitable for their intended use. Amongst other claims, we are, from time to time, a party to claims and lawsuits alleging that our products have caused injury or death or are otherwise unsuitable. It is possible that we will receive adverse judgments in such lawsuits, and any such adverse judgments could be material. Although we do carry insurance with respect to such matters, this insurance is subject to varying deductibles and self-insured retentions and may not be adequate to cover the full amount of any particular claim. In addition, any such claims could negatively impact the sales of products that are the subject of such claims or other products.

We may not be able to grow if we are unable to successfully acquire and integrate, or form business relationships with, other companies.

We expect to grow our business in the future through mergers, acquisitions and other similar business arrangements. We may not be able to identify suitable acquisition candidates or business relationships, negotiate acceptable terms for such acquisitions or relationships or receive necessary financing on acceptable terms.

Additionally, we may become responsible for liabilities associated with businesses that we acquire to the extent they are not covered by indemnification from the sellers or by insurance. Even if we are able to consummate acquisitions, such acquisitions could be dilutive to earnings, and we could overpay for such acquisitions. In 2012, we completed the acquisitions of German-based Völker group and Aspen Surgical. Additionally, we may not be fully successful in our integration efforts or fully realize expected benefits from the integration. Our integration efforts may divert management and other resources from other important matters, and we could experience delays or unusual expenses in the integration process, including intangible asset impairments which could result in significant charges in our Statements of Consolidated Income. Moreover, the margins for these companies may differ from our historical gross and operating margins resulting in a material adverse effect on our results of operations.

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We may not be able to attract, retain and develop key personnel.

Our future performance depends in significant part upon the continued service of our executive officers and other key personnel. The loss of the services of one or more of our executive officers or other key employees could have a material adverse effect on our business, prospects, financial condition and results of operations. Our success also depends on our continuing ability to attract, retain and develop highly qualified personnel, and as competition for such personnel is intense, there can be no assurance that we can do so in the future.

A portion of our workforce is unionized, and we could face labor disruptions that would interfere with our operations.

Approximately 4 percent of our employees as part of our logistics and manufacturing operations in the U.S. work under collective bargaining agreements. We are also subject to various collective bargaining arrangements or national agreements outside the U.S. covering approximately 20 percent of our employees. The collective bargaining agreement at our primary U.S. manufacturing facility will expire in January 2013 and negotiations for a new agreement are underway. Although we have not recently experienced any significant work stoppages as a result of labor disagreements, we cannot ensure that such a stoppage will not occur in the future. Inability to negotiate satisfactory new agreements or a labor disturbance at one of our principal facilities could have a material adverse effect on our operations.

Item 1B. UNRESOLVED STAFF COMMENTS

We have not received any comments from the staff of the SEC regarding our periodic or current reports that remain unresolved.

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Item 2. PROPERTIES

The principal properties used in our operations are listed below, and, except for our leased facilities in Acton, Massachusetts; Caledonia, Michigan; Cary, North Carolina; Chicago, Illinois, St. Paul, Minnesota; Singapore; and Redditch, UK, are owned by us subject to no material encumbrances. All facilities are suitable for their intended purpose, are being efficiently utilized and are believed to provide adequate capacity to meet demand for the next several years.

Location	Description and Primary Use
Acton, MA	Light manufacturing, development and distribution of health care equipment Office administration
Batesville, IN	Manufacturing, development and distribution of health care equipment Office administration
Caledonia, MI	Manufacturing, development and distribution of surgical products Office administration
Cary, NC	Development of health care equipment Office administration
Charleston, SC	Development and distribution of medical devices Office administration
Chicago, IL	Office administration
St. Paul, MN	Office administration
Montpellier, France	Manufacturing and development of medical devices
Pluvigner, France	Manufacturing, development and distribution of health care equipment Office administration
Hainichen, Germany	Manufacturing and distribution of health care equipment
Witten, Germany	Manufacturing, development and distribution of health care equipment Office administration
Monterrey, Mexico	Manufacturing of health care equipment
Las Piedras, Puerto Rico	Manufacturing of surgical products
Singapore	Manufacturing and development of health care equipment Office administration
Lulea, Sweden	Manufacturing, development and distribution of safe mobility and handling solutions Office administration

Redditch, UK

Manufacturing and distribution of surgical products
Office administration

In addition to the foregoing, we lease or own a number of other facilities, warehouse distribution centers, service centers and sales offices throughout the U.S., Canada, Western Europe, Mexico, Australia, Middle East and the Far East.

Item 3. LEGAL PROCEEDINGS

See Note 13 of Notes to Consolidated Financial Statements included under Part II, Item 8 of this Form 10-K for information regarding legal proceedings in which we are involved.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is traded on the New York Stock Exchange under the ticker symbol "HRC". The closing price of our common stock on the New York Stock Exchange on November 6, 2012 was \$27.82 per share. The following table reflects the range of high and low selling prices of our common stock and cash dividends declared by quarter for each of the last two fiscal years.

Quarter Ended:	Years Ended September 30					
	2012		2011		2010	
	High	Low	Cash Dividends Declared	High	Low	Cash Dividends Declared
December 31	\$35.11	\$28.63	\$0.1125	\$43.80	\$35.49	\$0.1025
March 31	\$36.13	\$29.44	\$0.1250	\$44.00	\$34.89	\$0.1025
June 30	\$34.17	\$28.08	\$0.1250	\$47.19	\$37.92	\$0.1125
September 30	\$32.69	\$24.69	\$0.1250	\$48.80	\$26.90	\$0.1125

Holders

As of November 6, 2012, there were approximately 20,400 shareholders of record.

Dividends

The declaration and payment of cash dividends is at the sole discretion of our Board of Directors ("Board") and depends upon many factors, including our financial condition, earnings potential, capital requirements, alternative uses of cash, covenants associated with debt obligations, legal requirements and other factors deemed relevant by our Board. We have paid cash dividends on our common stock every quarter since our initial public offering in 1971. We intend to continue to pay quarterly cash dividends equal to or greater than those paid since the spin-off of our funeral services business on April 1, 2008.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (2)
July 1, 2012 - July 31, 2012	-	\$ -	-	1,980,000
August 1, 2012 - August 31, 2012	200,779	27.09	200,000	1,780,000

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September 1, 2012 - September 30, 2012	1,275,000	29.01	1,275,000	505,000
Total	1,475,779	\$ 28.75	1,475,000	

- (1) Shares purchased during the quarter ended September 30, 2012 were in connection with the share repurchase program discussed below as well as employee payroll tax withholding for restricted and deferred stock distributions.
- (2) As of September 30, 2012 the total number of shares available for repurchase was 28.7 million shares of which a cumulative total of 28.2 million shares have been repurchased under this existing authorization. The plan does not have an expiration date and currently there are no plans to terminate this program in the future. In October 2012, the Board approved an expansion of its previously announced share repurchase authorization by 3.5 million shares, bringing the total number of shares available for repurchase to 32.2 million shares.

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Stock Performance Graph

The following graph compares the return on our common stock (as Hillenbrand Industries, Inc. through March 31, 2008) with that of Standard & Poor's 500 Stock Index ("S&P 500 Index"), and our Peer Group* for the five years ended September 30, 2012. The graph assumes that the value of the investment in our common stock, the S&P 500 Index, and our peer group was \$100 on October 1, 2007 and that all dividends were reinvested. The spin-off of our funeral services business at March 31, 2008 was treated as a reinvestment of a special dividend effective April 1, 2008 pursuant to SEC rules. The special dividend was based on the value of one share of Hillenbrand, Inc. (the holding company for the funeral services business) which was distributed as part of the spin-off.

	2007	2008	2009	2010	2011	2012
HRC (HB through March 31, 2008)	\$ 100	\$ 105	\$ 78	\$ 130	\$ 110	\$ 108
S & P 500	100	75	68	74	73	93
Peer Group	100	90	85	100	100	127

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	April 1, 2008	September 30, 2008	September 30, 2009	September 30, 2010	September 30, 2011	September 30, 2012
HRC	\$ 100	\$ 115	\$ 85	\$ 142	\$ 120	\$ 118
S & P 500	100	85	77	83	83	105
Peer Group	100	91	85	100	100	128

* For purposes of the Stock Performance Graphs above, our Peer Group is comprised of: Alere Inc.; C.R. Bard, Inc.; CareFusion Corp.; Chemed Corp.; Conmed Corporation; Dentsply International Inc.; Edwards Lifesciences Corporation; Hologic, Inc.; Hospira, Inc.; IDEXX Laboratories, Inc.; Integra Lifesciences Holdings Corporation; Intuitive Surgical, Inc.; Invacare Corporation; Mednax, Inc.; Mettler-Toledo International Inc.; PerkinElmer, Inc.; ResMed Inc.; Sirona Dental Systems Labs, Inc.; Steris Corporation; Teleflex, Inc.; The Cooper Companies, Inc.; Varian Medical Systems, Inc.; West Pharmaceutical Services, Inc.; and Zimmer Holdings, Inc.

Certain other information required by this item will be contained under the caption “Equity Compensation Plan Information” in our definitive Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held on March 8, 2013, and such information is incorporated herein by reference.

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Item 6. SELECTED FINANCIAL DATA

The following table presents our selected consolidated financial data for each of the last five fiscal years ended September 30. Statement of Consolidated Income data reflects our consolidated results on a continuing operations basis with the results of our former funeral services business reflected as discontinued operations in fiscal 2008. Balance sheet and cash flow data, for periods prior to consummation of the spin-off of the funeral services business at the end of the second fiscal quarter of 2008, have not been adjusted. Also see Note 12 of Notes to Consolidated Financial Statements included under Part II, Item 8 of this Form 10-K for selected unaudited quarterly financial information for each of the last two fiscal years.

(In millions except per share data)	2012	2011	2010	2009	2008
Net revenues	\$1,634.3	\$1,591.7	\$1,469.6	\$1,386.9	\$1,500.0
Income (loss) from continuing operations	\$120.8	\$133.5	\$126.0	\$(405.0)	\$67.1
Income from discontinued operations	\$-	\$-	\$-	\$-	\$48.7
Net income (loss) attributable to common shareholders	\$120.8	\$133.3	\$125.3	\$(405.0)	\$115.8
Income (loss) attributable to common shareholders per share from continuing operations - Diluted	\$1.94	\$2.09	\$1.97	\$(6.47)	\$1.07
Income per share from discontinued operations - Diluted	\$-	\$-	\$-	\$-	\$0.78
Net income (loss) attributable to common shareholders per share - Diluted	\$1.94	\$2.09	\$1.97	\$(6.47)	\$1.85
Total assets	\$1,627.6	\$1,299.1	\$1,245.6	\$1,232.6	\$1,680.0
Long-term obligations	\$237.5	\$50.8	\$98.5	\$99.7	\$100.0
Cash flows from operating activities	\$261.7	\$222.5	\$139.8	\$225.7	\$270.0
Capital expenditures	\$77.8	\$68.9	\$64.7	\$63.9	\$102.0
Cash dividends per share	\$0.49	\$0.43	\$0.41	\$0.41	\$0.78

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are a leading worldwide manufacturer and provider of medical technologies and related services for the health care industry, including patient support systems, safe mobility and handling solutions, non-invasive therapeutic products for a variety of acute and chronic medical conditions, medical equipment rentals, surgical products and information technology solutions. Our comprehensive product and service offerings are used by health care providers across the health care continuum and around the world in hospitals, extended care facilities and home care settings, to enhance the safety and quality of patient care.

Key Factors Impacting Our Business

Industry-wide Demand and Cost Pressures. We believe that over the long term, overall patient and provider demand for health care products and services will continue to grow as a result of a number of factors, including an aging population, longer life expectancies, greater access to medical insurance through government regulation and an increasing number of sicker patients across all care settings, including hospitals, extended care facilities and in the home. In contrast, however, health care providers across the care continuum are under continued pressure to improve efficiency and control costs, possibly reducing demand for our products and services. These pressures may occur for a number of reasons, including declining commercial third-party payor reimbursement rates and government regulation. In addition, an increasing number of our customers are purchasing through GPO agreements or other large contracts, where they may be able to purchase at lower prices than they would be able to individually. Moreover, general economic pressures have caused some governmental authorities to initiate various austerity measures to control healthcare spending, reducing direct spending in addition to governmental reimbursement rates. These factors may decrease demand for our products, decrease payments to us, or both. Although we believe that industry demand will increase over time, a lack of demand growth could impact our ability to grow revenues.

Growing Desire Among Developed and Developing Countries to Invest in Health Care. While industry growth rates in more mature geographic markets such as western and northern Europe and Japan have moderated, in many other geographic markets, where the relative spending on health care is increasing, we are experiencing increasing demand for medical technologies. New hospital construction and hospital refurbishments have continued in regions such as Latin America, the Middle East and many parts of Asia. These trends could increase overall demand for our products and services.

Mergers and Acquisitions. We have made several recent acquisitions, most notably the acquisitions of Aspen Surgical and Völker. In addition, our stated capital allocation strategy anticipates that we may make additional acquisitions in the future. Our past and future acquisitions (to the extent that we make them) will materially impact our results of operations, by increasing our revenue and revenue growth rates, increasing our ongoing operational selling and administrative expenses, adding incremental acquisition and integration related costs, and creating additional non-cash charges associated with the amortization of tangible and intangible assets resulting from purchase accounting. Moreover, to the extent that we acquire businesses that have financial drivers different than our current businesses, our future results of operations will be subject to additional or different factors impacting our financial performance.

Rising Acuties and Technological Impact. As a result of the growing population of the elderly and obese, health care systems are challenged to treat rising incidences of complex diseases and conditions such as diabetes, congestive heart failure and respiratory disease. Patients are being moved through the hospital faster and generally desire to rapidly move to lower acuity settings. We believe that this increases the demand for more sophisticated means to care for

these patients, such as improved medical technologies, communication tools and information technologies. The increasing utilization of these technologies and our ability to meet changing demand with new differentiated products will impact our ability to increase revenue and improve margins in the future.

Increasing Operational Efficiency. We have and will continue to undertake initiatives to improve our operating efficiency, including business realignments, employee reductions in force, product rationalizations, lower sourcing costs and continuous improvement activities in our manufacturing facilities and back office functions. Throughout the year we gradually realized the efficiencies of these multiple actions and we believe our operating expenses and margins will continue to be positively impacted, but these activities may not produce the full efficiency and cost reduction benefits we expect, in a timely fashion or at all. Further, we may utilize savings produced to reinvest in (or fund) other business priorities.

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Patient and Caregiver Safety and Quality. An increasing emphasis is being placed within hospitals to assure quality of care through increased accountability and public disclosure. At the same time, caregiver shortages, worker related injuries, the aging workforce and other staffing requirements have led to increasing emphasis on caregiver injury prevention. Several pieces of legislation have been enacted over the past few years to address these areas including the "pay for performance" initiative by the Centers for Medicare and Medicaid Services ("CMS") which aims to better align reimbursement with improved patient outcomes and the reduction of adverse events including bedsores (or pressure ulcers), ventilator associated pneumonia, patient falls, deep vein thrombosis and patient entrapment. Hospitals may experience reduced reimbursement for hospital acquired adverse events, making a stronger connection with these adverse events and revenue levels. A number of the top adverse events and preventable medical errors in U.S. hospitals, including those listed above can be mitigated in part by our technologies, processes and services. We are well positioned to benefit from the emphasis being placed on patient safety due to our products and technologies that are designed to assist providers in materially improving outcomes associated with patients confined to beds across all care settings.

Related to caregiver safety, certain countries in Europe have established legislation that has mandated that patient lifts be available in hospitals. In the U.S., several states have enacted or introduced legislation and, most recently, The Nurse and Health Care Worker Protection Act of 2009 was introduced in Congress aimed at eliminating manual patient lifts and transfers. We believe that our products and services seek to address these concerns through novel application of technology, clinical and ergonomic science, and customer feedback. Overall increasing emphasis on patient and caregiver safety and quality could increase demand for our products and services.

Use of Non-GAAP Financial Measures

The accompanying consolidated financial statements, including the related notes, are presented in accordance with accounting principles generally accepted in the U.S. ("GAAP"). We provide adjusted income before income taxes, income tax expense and diluted earnings per share results because we use these measures internally for planning, forecasting and evaluating the performance of the business.

In addition, we analyze net revenues on a constant currency basis to better measure the comparability of results between periods. We believe that evaluating growth in net revenues on a constant currency basis provides an additional and meaningful assessment to both management and investors.

We believe use of these non-GAAP measures contribute to an understanding of our financial performance and provide an additional analytical tool to understand our results from core operations and to reveal underlying trends. These measures should not, however, be considered in isolation, as a substitute for, or as superior to measures of financial performance prepared in accordance with GAAP.

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RESULTS OF OPERATIONS

The following table presents comparative operating results for the years discussed within Management's Discussion and Analysis:

(In millions except per share data)	Years Ended September 30					
	2012	% of Related Revenues	2011	% of Related Revenues	2010	% of Related Revenues
Net Revenues						
Capital sales	\$1,198.2	73.3 %	\$1,119.0	70.3 %	\$996.6	67.8 %
Rental revenues	436.1	26.7 %	472.7	29.7 %	473.0	32.2 %
Total Revenues	1,634.3	100.0 %	1,591.7	100.0 %	1,469.6	100.0 %
Gross Profit						
Capital sales	507.8	42.4 %	512.2	45.8 %	448.0	45.0 %
Rental revenues	246.9	56.6 %	269.1	56.9 %	268.6	56.8 %
Total Gross Profit	754.7	46.2 %	781.3	49.1 %	716.6	48.8 %
Research and development expenses	66.9	4.1 %	63.8	4.0 %	58.3	4.0 %
Selling and administrative expenses	496.4	30.4 %	502.0	31.5 %	474.6	32.3 %
Litigation (credit) charge	(3.6)	-0.2 %	47.3	3.0 %	(21.2)	-1.4 %
Impairment of goodwill and other intangibles	8.0	0.5 %	-	-	-	-
Special charges	18.2	1.1 %	1.4	0.1 %	13.2	0.9 %
Operating Profit	168.8	10.3 %	166.8	10.5 %	191.7	13.0 %
Other income (expense), net	(5.3)	-0.3 %	(7.1)	-0.4 %	(8.8)	-0.6 %
Income Before Income Taxes	163.5	10.0 %	159.7	10.0 %	182.9	12.4 %
Income tax expense	42.7	2.6 %	26.2	1.6 %	56.9	3.9 %
Net Income	120.8	7.4 %	133.5	8.4 %	126.0	8.6 %
Less: Net income attributable to noncontrolling interest	-	-	0.2	-	0.7	-
Net Income Attributable to Common Shareholders	\$120.8	7.4 %	\$133.3	8.4 %	\$125.3	8.5 %
Net Income Attributable to Common Shareholders per Common Share - Diluted	\$1.94		\$2.09		\$1.97	

Note: Certain percentage amounts may not add due to rounding.

Fiscal Year Ended September 30, 2012 Compared to Fiscal Year Ended September 30, 2011

Consolidated Results of Operations

In this section, we provide a high-level overview of our consolidated results of operations. Immediately following this section is a discussion of our results of operations by reportable segment.

Net Revenues

(Dollars in millions)	Years Ended September 30		Percentage Change Constant As Reported Currency	
	2012	2011		

Revenues:

Capital sales	\$ 1,198.2	\$ 1,119.0	7.1	8.9
Rental revenues	436.1	472.7	(7.7)	(7.0)
Total Revenues	\$ 1,634.3	\$ 1,591.7	2.7	4.2

Capital sales increased, primarily as a result of incremental sales due to our Völker and Aspen Surgical acquisitions. Sales in our International segment also increased due to strong growth in the Middle East and Eastern European regions, partially offset by lower Western European revenues. North America capital sales declined for the year, where patient support system sales decreased 9.7 percent on lower volumes and hospital spending pressure.

Rental revenues declined in all segments on lower volumes and unfavorable pricing in select areas. In our North America segment, revenues were down in all lines of business, with the largest percentage decline coming in our home care business where certain restructuring actions were taken in the current year. Rental revenues in Surgical and Respiratory Care decreased on lower volumes and pricing pressures in our respiratory care business. International rental revenues were also down, primarily on unfavorable currency effects.

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Gross Profit

(Dollars in millions)	Years Ended September 30			
	2012		2011	Percentage Change
Gross Profit				
Capital sales	\$507.8		\$512.2	(0.9)
Percent of Related Revenues	42.4	%	45.8	%
Rental revenues	\$246.9		\$269.1	(8.2)
Percent of Related Revenues	56.6	%	56.9	%
Total Gross Profit	\$754.7		\$781.3	(3.4)
Percent of Related Revenues	46.2	%	49.1	%

Capital gross profit was down only slightly on higher revenues, while gross margin (as a percentage of revenues) decreased 340 basis points. The decline was due to a number of factors, most notably an unfavorable field corrective action of \$16.0 million, unfavorable geographic and product mix, higher commodity and fuel pricing, unfavorable acquisition costs associated with the step-up of acquired inventories and generally lower margins associated with Völker products.

Rental gross profit decreased 8.2 percent and gross margin declined 30 basis points, due to lower revenues and the resulting reduced leverage of our fleet and field service infrastructure as revenues declined quicker than our costs. Partially offsetting this decline was the recognized gain of \$6.5 million related to a completed vendor product recall matter, which exceeded the gain of \$2.3 million for the same product recall in the prior year.

Other

(Dollars in millions)	Years Ended September 30			
	2012		2011	Percentage Change
Research and development expenses	\$66.9		\$63.8	4.9
Percent of Total Revenues	4.1	%	4.0	%
Selling and administrative expenses	\$496.4		\$502.0	(1.1)
Percent of Total Revenues	30.4	%	31.5	%
Litigation (credit) charge	\$(3.6)		\$47.3	n/a
Impairment of goodwill and other intangibles	\$8.0		\$-	n/a
Special charges	\$18.2		\$1.4	n/a
Interest expense	\$(6.5)		\$(8.5)	(23.5)
Investment income and other, net	\$1.2		\$1.4	(14.3)

Research and development expenses increased 4.9 percent as we continue to increase our organic investments in new products. Selling and administrative expenses declined as a percentage of revenues by 110 basis points as the incremental expenses added with recent acquisitions and the associated acquisition and integration costs were more than offset by lower personnel costs, including lower incentive compensation costs, and lower legal costs.

During the fourth quarter of 2012, we reached a favorable litigation settlement of \$3.6 million, net of legal fees, related to a patent litigation suit. During fiscal 2011, we recorded a litigation charge of \$42.3 million in conjunction with reaching an agreement to settle a United States Office of Inspector General's ("OIG") investigation. Also during fiscal 2011, we reached a settlement with Freedom Medical, Inc. with respect to an antitrust matter resulting in a litigation charge of \$5.0 million.

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During the second quarter of fiscal 2012, we recorded a non-cash impairment charge of \$8.0 million related to a previously acquired trade name whose assessment was triggered by strategic changes in how the asset would be utilized on a go forward basis. Also at that time, we announced a plan to improve our cost structure and streamline our organization by, among other things, eliminating approximately 200 positions across the Company resulting in a special charge of \$9.3 million, net of reversals, primarily related to severance and other benefits provided to the effected employees. We also recorded an impairment of certain tangible assets for which the carrying values could not be fully recovered as a result of various strategic decisions, which resulted in a non-cash charge of \$3.2 million. These actions and the related cash expenditures were substantially complete by the end of fiscal year 2012, but some will be paid in fiscal 2013. The actions are anticipated to yield annualized cost savings of approximately \$18 million after full implementation.

During the fourth quarter of fiscal 2012, we recorded a non-cash impairment charge of \$4.7 million for certain tangible assets for which the carrying values could not be fully recovered as a result of strategic decisions made relative to the exiting of underperforming portions of our home care business. Also associated with this action was the elimination of approximately 100 positions and the related charge of \$1.0 million, primarily related to severance and other benefits to be provided to the effected employees. These actions and the related cash expenditures are expected to be completed by the end of fiscal year 2013.

During fiscal 2011, we recorded net special charges of \$1.4 million primarily related to a combination of severance activities associated with our 2010 restructuring activities and additional write downs of assets held for sale related to our aviation assets.

Interest expense was lower for the year on lower interest rates and borrowings for most of the year. During the first quarter of fiscal 2012, we repaid \$47.5 million of unsecured debentures carrying an interest rate of 8.5 percent, lowering our outstanding borrowings. Then during the fourth quarter in conjunction with the Aspen Surgical acquisition, we borrowed an additional \$260 million at more favorable rates, however given the interim period in between with reduced borrowings, our total amount of interest expense was reduced for the year.

GAAP and Adjusted Earnings

	Years Ended September 30					
	2012			2011		
	Income Before Income Taxes	Income Tax Expense	Diluted EPS (1)	Income Before Income Taxes and NCI (1) (2)	Income Tax Expense (1)	Diluted EPS
(Dollars in millions, except for per share amounts)						
GAAP Earnings	\$ 163.5	\$ 42.7	\$ 1.94	\$ 159.7	\$ 26.2	\$ 2.09
Adjustments:						
Vendor product recall	(6.5)	(2.5)	(0.06)	(2.3)	(0.9)	(0.02)
Acquisition and integration costs	11.7	2.9	0.14	1.0	0.4	0.01
Special charges	18.2	6.8	0.18	1.4	0.5	0.01
Impairment of other intangibles	8.0	2.1	0.09	-	-	-
Field corrective action	16.0	5.9	0.16	-	-	-
Litigation (credit) charge	(3.6)	(1.3)	(0.04)	47.3	14.2	0.52
International tax reorganization and recognition of						

unrecognized tax attributes	-	11.0	(0.18)	-	21.5	(0.34)
Adjusted Earnings	\$ 207.3	\$ 67.6	\$ 2.24	\$ 207.2	\$ 61.8	\$ 2.27

(1) May not add due to rounding.

(2) NCI refers to our noncontrolling interest in our former Encompass joint venture.

The tax rate for fiscal 2012 was 26.1 percent compared to 16.4 percent in the prior year. The effective rates for both fiscal 2012 and 2011 were favorably impacted by the recognition of discrete period tax benefits. The effective tax rate for 2012 was favorably impacted by the \$11.0 million of tax benefits related to the international tax reorganization efforts in the fourth quarter. The lower rate in 2011 is due primarily to the fourth quarter recognition of \$21.5 million of previously unrecognized tax benefits associated predominantly with international operating loss carryforwards, as well as higher earnings in lower tax rate jurisdictions and the reinstatement of the research and development tax credit.

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The adjusted effective tax rates were 32.6 and 29.8 percent for fiscal years 2012 and 2011. The lower rate in 2011 is due primarily to the benefit of higher earnings in lower tax rate jurisdictions as well as the benefit and reinstatement of the research and development tax credit. For fiscal 2011, we entered the year with no allowable credit, but its reinstatement in the first quarter allowed for a full year's benefit in 2011 as well as required a retroactive "catch up" of previously unrecognized credits. For fiscal 2012, the credit expired at the end of our first quarter.

Net income attributable to common shareholders was \$120.8 million compared to \$133.3 million in the prior year period. On an adjusted basis, net income attributable to common shareholders decreased \$5.5 million, or 3.8 percent. Diluted earnings per share decreased from \$2.09 in the prior year to \$1.94 in the current year on a reported basis and on an adjusted basis decreased \$0.03 to \$2.24 per diluted share.

Business Segment Results of Operations

During the fourth quarter of fiscal 2012, we changed our segment reporting to reflect changes in our organizational structure and management's view of the business. As part of these changes, we combined the North America Acute Care and components of the North America Post-Acute Care segments into a new North America segment. At the same time we created the Surgical and Respiratory Care segment which contains the surgical reporting unit (formerly part of the North America Acute Care segment), the respiratory care reporting unit (formerly part of the North America Post-Acute Care segment) and the recently acquired Aspen Surgical business. There were no changes to the International segment. The prior year segment information included below has been updated to reflect these changes.

	Years Ended September 30		Percentage Change Constant	
(Dollars in millions)	2012	2011	As Reported	Currency
Revenues:				
North America	\$ 998.2	\$ 1,057.2	(5.6)	(5.5)
Surgical and Respiratory Care	153.2	132.9	15.3	15.3
International	482.9	401.6	20.2	25.8
Total revenues	\$ 1,634.3	\$ 1,591.7	2.7	4.2
Divisional income:				
North America	\$ 198.9	\$ 230.6	(13.7)	
Surgical and Respiratory Care	38.1	40.0	(4.8)	
International	18.6	27.9	(33.3)	
Corporate expenses	(64.2)	(83.0)	(22.7)	
Total divisional income	\$ 191.4	\$ 215.5	(11.2)	

North America

North America capital sales were down 4.5 percent related primarily to volume declines in our patient support systems sales, which were down 9.7 percent in a difficult North American healthcare environment with continued pressure on capital spending. This decline was partially offset by stronger sales from our healthcare information technology business. Rental revenues declined 7.9 percent, with declines in all care settings and in our two product groupings of therapy and movable medical equipment. Volume declines in these product groupings are attributable to the lower indications of flu, continued initiatives by hospitals to control operating costs and competitive pressures. The largest percentage decline in rental revenues came from our home care business where certain restructuring actions were taken in the current year.

North America divisional income decreased due primarily to the lower operating income generated in response to the lower revenues, along with the impact of a field corrective action of \$16.0 million. This decline was only partially offset by operating expense favorability. Capital margins declined, impacted by the field corrective action, while rental margins remained flat despite the impact of declining revenues due to gains recognized in connection with a vendor product recall of \$6.5 million in the current year compared to \$2.3 million for the same product recall in the prior year. Operating expenses were favorable primarily due to lower personnel costs, including variable and incentive compensation.

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Surgical and Respiratory Care

Surgical and Respiratory Care capital sales increased 42.6 percent due primarily to sales included from our fourth quarter acquisition of Aspen Surgical. Excluding Aspen Surgical, capital revenues increased 4.5 percent. Rental revenues decreased 7.4 percent as a result of lower rental volumes in our respiratory care product line as well as continued pricing pressures.

Divisional income for the segment decreased due to a decline in gross profit related to a generally lower margin on Aspen Surgical products compared to the other businesses in the segment, as well as the effects of acquisition and integration costs, including inventory step-up, associated with the purchase of Aspen Surgical. Rental gross profit decreased and gross margin declined as revenues decreased quicker than our costs.

International

International capital sales increased 24.7 percent and 30.2 percent on a constant currency basis, due to sales included from our second quarter fiscal 2012 acquisition of Völker, as well as strong sales in the Middle East and Eastern European regions coming from large tender wins. This favorability was partially offset by lower Western European revenues coming from a difficult business environment. Rental revenues declined by 7.2 percent on a reported basis and 1.4 percent on a constant currency basis. The rental decrease not related to currency effects was primarily the result of increasing price pressures.

International divisional income declined despite the stronger revenues. Gross profit increased on higher revenues while gross margins declined related to generally lower margins associated with Völker products, lower margins on certain tender wins, unfavorable product mix and slightly higher commodity pricing, along with higher fuel pricing. Operating expenses also increased related primarily to costs introduced by our recent acquisitions, including Völker in the second quarter of fiscal 2012 and the Liko Distributors in the fourth quarter of fiscal 2011.

Fiscal Year Ended September 30, 2011 Compared to Fiscal Year Ended September 30, 2010

Consolidated Results of Operations

In this section, we provide a high-level overview of our consolidated results of operations. Immediately following this section is a discussion of our results of operations by reportable segment.

Net Revenues

(Dollars in millions)	Years Ended September 30		Percentage Change Constant	
	2011	2010	As Reported	Currency
Revenues:				
Capital sales	\$ 1,119.0	\$ 996.6	12.3	10.8
Rental revenues	472.7	473.0	(0.1)	(0.6)
Total Revenues	\$ 1,591.7	\$ 1,469.6	8.3	7.2

Capital sales increased across all three segments, led by a 17.9 percent increase in North America where patient support systems sales increased 28.1 percent on higher volumes and improved hospital capital spending. On a reported basis International capital sales were up, but on a constant currency basis, sales were essentially flat as volume growth in Latin America was offset by declines in the Middle East, Asia-Pacific and Europe.

Rental revenues were consistent with the prior year. Growth in respiratory care revenues and the effects of favorable foreign exchange rates were offset by volume declines in the first part of the year due to a weaker influenza season compared to 2010, which impacted both our therapy rental and moveable medical equipment businesses.

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Gross Profit

(Dollars in millions)	Years Ended September 30		Percentage Change
	2011	2010	
Gross Profit			
Capital sales	\$512.2	\$448.0	14.3
Percent of Related Revenues	45.8	% 45.0	%
Rental revenues	\$269.1	\$268.6	0.2
Percent of Related Revenues	56.9	% 56.8	%
Total Gross Profit	\$781.3	\$716.6	9.0
Percent of Related Revenues	49.1	% 48.8	%

Capital sales gross profit increased 14.3 percent on higher volumes while gross margin increased by 80 basis points, primarily due to improved geographic and product mix and slightly improved costs on a full year basis. Fiscal 2011 gross margin also included a \$2.6 million warranty charge for two product retrofits.

Rental revenue gross profit was essentially flat and gross margin was also relatively unchanged. In fiscal 2011, a gain of 2.3 million was recognized in connection with a vendor's product recall. Absent such gains, gross margins would have declined due to slight increases in depreciation and field service costs on flat revenues.

Other

(Dollars in millions)	Years Ended September 30		Percentage Change
	2011	2010	
Research and development expenses	\$63.8	\$58.3	9.4
Percent of Total Revenues	4.0	% 4.0	%
Selling and administrative expenses	\$502.0	\$474.6	5.8
Percent of Total Revenues	31.5	% 32.3	%
Litigation charge (credit)	\$47.3	\$(21.2)	n/a
Special charges	\$1.4	\$13.2	n/a
Interest expense	\$(8.5)	\$(8.7)	(2.3)
Investment income and other, net	\$1.4	\$(0.1)	n/a

Research and development expenses increased 9.4 percent as part of management's focus to increase investment in new product development. While selling and administrative expenses grew in aggregate, as a percentage of sales the expenses decreased by 80 basis points. The increase in expense resulted from increases in legal costs for litigation and patent related matters, costs associated with the upgrade of our information technology platform, increases in selling expenses led by higher commissions on the increased sales, higher variable compensation costs and the unfavorable impact of foreign exchange rates. In addition, selling and administrative expenses in fiscal 2011 included approximately \$3 million of costs related to community donations and severance. Those higher costs were partially

offset by lower marketing costs and improved employee benefit rates year-over-year.

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During fiscal 2011, we recorded a litigation charge of \$42.3 million in conjunction with reaching an agreement to settle a United States Office of Inspector General's ("OIG") investigation. During the fourth quarter of fiscal 2011, we also reached a settlement with Freedom Medical, Inc. with respect to an antitrust matter resulting in a litigation charge of \$5.0 million. During fiscal 2010, we reversed a \$21.2 million litigation accrual as the statute of limitations expired for any additional claims to be filed from those plaintiffs that opted out of the fiscal 2005 Spartanburg antitrust settlement.

During fiscal 2011, we recorded special charges of a net \$1.4 million primarily related to a combination of severance activities associated with our 2010 restructuring activities and additional write downs of assets held for sale related to our aviation assets. During fiscal 2010, we took restructuring actions and recorded an asset write down charge of \$3.9 million related to our aviation assets. Two separate restructuring actions resulted in the elimination of approximately 260 positions and cumulative special charges of \$9.3 million primarily related to severance and other benefits provided to affected employees. The majority of the cash expenditures associated with the severance was completed by the end of our 2011 fiscal year with the remainder paid in fiscal 2012.

GAAP and Adjusted Earnings

	Years Ended September 30					
	2011			2010		
	Income Before Income Taxes and NCI (1) (2)	Income Tax Expense (1)	Diluted EPS	Income Before Income Taxes and NCI (2)	Income Tax Expense	Diluted EPS (1)
(Dollars in millions, except for per share amounts)						
GAAP Earnings	\$ 159.7	\$ 26.2	\$ 2.09	\$ 182.9	\$ 56.9	\$ 1.97
Adjustments:						
Litigation charge (credit)	47.3	14.2	0.52	(21.2)	(8.3)	(0.20)
Vendor product recall	(2.3)	(0.9)	(0.02)	-	-	-
Special charges	1.4	0.5	0.01	13.2	5.0	0.13
Acquisition and integration costs	1.0	0.4	0.01	-	-	-
Recognition of previously unrecognized tax attributes	-	21.5	(0.34)	-	-	-
Gain on sale of non-strategic assets	-	-	-	-	1.7	(0.03)
Tax settlement	-	-	-	-	6.5	(0.10)
Adjusted Earnings	\$ 207.2	\$ 61.8	\$ 2.27	\$ 174.9	\$ 61.8	\$ 1.76

(1) May not add due to rounding.

(2) NCI refers to our noncontrolling interest in our former Encompass joint venture.

The tax rate for fiscal 2011 was 16.4 percent compared to 31.1 percent in the prior year. The effective rates for both fiscal 2011 and 2010 were favorably impacted by the recognition of discrete period tax benefits. The lower rate in 2011 is due primarily to the fourth quarter recognition of \$21.5 million of previously unrecognized tax benefits associated predominantly with international operating loss carryforwards, as well as increased earnings in lower tax rate jurisdictions and the reinstatement of the research and development tax credit. The effective tax rate for 2010 was favorably impacted by the resolution of an income tax matter with the IRS of \$6.5 million.

The adjusted effective tax rates were 29.8 and 35.3 percent for fiscal years 2011 and 2010. The lower rate in 2011 is due primarily to the benefit of increased earnings in lower tax rate jurisdictions as well as the reinstatement of the research and development tax credit. For fiscal 2011, we entered the year with no allowable credit, but its reinstatement in the first quarter allowed for a full year's benefit in 2011 as well as required a retroactive "catch up" of previously unrecognized credits. For fiscal 2010, the credit had expired at the end of our first quarter.

Net income attributable to common shareholders was \$133.3 million in fiscal 2011. On an adjusted basis, net income attributable to common shareholders increased \$32.8 million, representing an increase of 29.2 percent. Diluted earnings per share increased 6.1 percent to \$2.09 and on an adjusted basis increased 29.0 percent to \$2.27.

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Business Segment Results of Operations

The prior year segment information included below has been updated to reflect the previously discussed segment changes.

(Dollars in millions)	Years Ended September 30		Percentage Change	
	2011	2010	As Reported	Constant Currency
Revenues:				
North America	\$ 1,057.2	\$ 958.2	10.3	10.0
Surgical and Respiratory	132.9	123.3	7.8	7.8
International	401.6	388.1	3.5	0.1
Total revenues	\$ 1,591.7	\$ 1,469.6	8.3	7.2
Divisional income:				
North America	\$ 230.6	\$ 185.7	24.2	
Surgical and Respiratory	40.0	38.1	5.0	
International	27.9	29.9	(6.7)	
Corporate expenses	(83.0)	(70.0)	18.6	
Total divisional income	\$ 215.5	\$ 183.7	17.3	

North America

North America capital sales increased 17.9 percent, the result of higher volumes in nearly all product categories led by our patient support systems, which increased 28.1 percent. Information technology and patient lifting products also posted solid gains. Rental revenues decreased 2.6 percent due in part to a decline in rentals in the first part of the year driven by a weaker influenza season compared to the prior year, which impacted both our therapy rental and moveable medical equipment businesses. In addition, we also experienced declines in rental revenues in both our extended care and home care businesses.

North America divisional income increased significantly due to the increase in capital gross profit resulting from higher volumes and favorable product mix experienced during the year, partially offset by the cost of product retrofits. Rental gross profit was down slightly on the lower revenues, but rental margins were generally consistent with the prior year despite slightly higher field service costs and depreciation due to a \$2.3 million gain recognized in connection with a vendor's product recall. Operating expenses were slightly higher primarily as a result of new product investments and increased variable compensation, including commissions.

Surgical and Respiratory Care

Surgical and Respiratory Care capital sales increased 5.8 percent, which benefited from double-digit growth in our respiratory care business. Rental revenues increased 9.5 percent driven by an increase in rental volumes of The Vest® respiratory care system.

The increase in divisional income for the Surgical and Respiratory Care division was driven by the higher gross profit on increased revenues, which more than offset slightly higher operating expenses for new product investments and increased variable compensation, including commissions.

International

International capital sales increased 3.3 percent and were flat on a constant currency basis as volume growth in Latin America was offset by declines in the Middle East, Asia-Pacific and Europe. Rental revenues increased 4.9 percent and 1.5 percent on a constant currency basis. The increase in rental revenues was primarily the result of a recent bariatric product introduction in Europe.

International gross profit increased due to favorable foreign exchange impacts and improved rental gross margin rates on flat costs, despite the costs of product retrofits. However, divisional income declined due to increased operating expenses related to investments in new product development, severance and infrastructure costs and the effect of unfavorable foreign exchange rates.

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LIQUIDITY AND CAPITAL RESOURCES

(Dollars in millions)	Years Ended September 30		
	2012	2011	2010
Cash Flows Provided By (Used In):			
Operating activities	\$261.7	\$222.5	\$139.8
Investing activities	(539.5)	(78.0)	(38.2)
Financing activities	135.6	(101.9)	(87.4)
Effect of exchange rate changes on cash	1.9	(2.5)	(0.3)
(Decrease) Increase in Cash and Cash Equivalents	\$(140.3)	\$40.1	\$13.9

Net cash flows from operating activities and selected borrowings have represented our primary sources of funds for growth of the business, including capital expenditures and acquisitions. Our financing agreements contain no restrictive provisions or conditions relating to dividend payments, working capital or additional unsecured indebtedness (except to the extent that a dividend payment or incurrence of additional unsecured indebtedness would result in a default under our financing agreements), but there are limitations with respect to secured indebtedness. Our debt agreements also contain no credit rating triggers. Credit rating changes can, however, impact the cost of borrowings under our financing agreements.

Operating Activities

Our cash flows from operations during fiscal 2012 were driven by net income and improved working capital, including collections on high prior year-end receivables, adjusted by non-cash expenses related to depreciation and amortization, stock compensation, asset impairments and deferred taxes. These sources of cash were offset by the payout of our performance-based compensation related to our 2011 fiscal year.

Fiscal 2012 operating cash flows were higher compared to fiscal 2011 primarily due to improved working capital, including a decrease in organic year-end receivables, and stable organic accounts payable compared to a large decrease in prior year, partially offset by lower net income.

Our cash flows from operations during fiscal 2011 were driven by net income, adjusted by non-cash expenses related to depreciation and amortization, stock compensation and deferred taxes. These net sources of cash were partially offset by the payout of our performance-based compensation and restructuring accruals related to our 2010 fiscal year. Cash flows from changes in working capital were relatively flat during fiscal 2011 with improvements in inventories and other assets/liabilities offset by higher receivables on increased fourth quarter sales and lower accounts payable.

The increase in fiscal 2011 operating cash flows was due to improved financial performance, along with the timing of tax payments as well as lower pension contributions in the current year. Partially offsetting this improvement was the payment of \$47.3 million in litigation settlements in the fourth quarter of 2011, increased year-end receivables from higher fourth quarter sales and higher payouts of performance-based compensation in fiscal 2011.

Fiscal 2010 cash flows from operations were driven primarily by net income, adjusted by non-cash expenses related to depreciation and amortization, stock compensation, deferred taxes and the release of a \$21.2 million reserve related to a litigation credit. Uses of cash included \$52.3 million of pension funding, increased income tax payments on higher net income and the settlement of prior year tax audits, and investments in inventory to meet our increasing backlog position.

Investing Activities

Our use of investing cash flows during fiscal 2012 was driven primarily by our acquisitions of Aspen Surgical (\$399.8 million) and Völker (\$77.0 million) as well as capital expenditures.

The significant acquisition activity in 2012 drove the increased use of cash compared to 2011, along with and to a lesser extent, capital expenditures, which increased year-over-year.

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Cash flows during fiscal 2011 were driven primarily by capital expenditures and to a lesser extent our acquisition of two Liko distributors.

The increase in 2011 net cash used in investing activities compared to fiscal 2010 was primarily due to lower proceeds received from the sale or calls of our auction rate securities, higher business acquisition payments and capital expenditures in fiscal 2011.

In fiscal 2010, our receipt of proceeds from the sale of a portion of our auction rate securities was more than offset by our cash used in investing activities related to capital expenditures and an investment in a joint venture.

Financing Activities

Cash provided by financing activities in fiscal 2012 primarily related to \$260.0 million of additional borrowings, partially offset by debt payments of \$50.0 million, shares repurchased in the open market of \$42.4 million and dividend payments to our shareholders of \$30.1 million.

Our cash provided by financing activities in fiscal 2012 compared to our use of cash in financing activities in fiscal 2011 were primarily driven by our cash borrowings in fiscal 2012 and higher share repurchases in fiscal 2011.

In fiscal 2011, our use of cash for financing activities was primarily driven by \$110.0 million related to share repurchases in the open market and \$27.0 million of dividend payments to our shareholders, along with the purchase of the remaining interest in a former joint venture. These uses of cash were partially offset by cash proceeds from stock option exercises and other stock issuances under our employee stock purchase plan.

Our higher use of cash from financing activities in fiscal 2011 compared to fiscal 2010 was due primarily to an increase in stock repurchases. Also impacting the variance was the purchase of the noncontrolling interest in our joint venture, offset by significant debt repayments in fiscal 2010 and higher proceeds from stock option exercises in fiscal 2011.

Our use of cash for financing activities during fiscal 2010 consisted mainly of a \$45.0 million payment on our revolving credit facility, \$34.5 million related to our share repurchases in the open market and \$25.8 million in dividend payments to our shareholders. These uses of cash were partially offset by cash proceeds from stock option exercises.

Our debt-to-capital ratio was 30.3, 16.9 and 17.6 percent at September 30, 2012, 2011 and 2010. The change in 2012 was primarily due to our debt more than doubling to fund the 2012 acquisitions. The change from fiscal 2010 to fiscal 2011 was primarily due to higher net income, partially offset by share repurchases, which combined to produce higher shareholder's equity.

Other Liquidity Matters

Net cash flows from operating activities and selected borrowings have represented our primary sources of funds for growth of the business, including capital expenditures and acquisitions.

As of September 30, 2012, we held investment securities with a fair value of \$7.3 million, which consisted of AAA rated student loan auction rate securities. We have estimated the current fair value of our portfolio of auction rate securities based upon guidance provided by our investment advisors, including consideration of the credit quality of the underlying securities and the provisions of the respective security agreements. At September 30, 2012, we have recorded temporary unrealized losses totaling \$0.5 million on these securities to reflect the estimated decline in fair

value associated with the current illiquidity in the auction rate market. If current market conditions do not improve or worsen, the result could be further realized or unrealized losses or impairments and liquidity and earnings could be adversely affected.

During the fourth quarter of fiscal 2012, we entered into a new credit facility. The new credit facility provides for revolving loans of up to \$500.0 million, plus term loans in the aggregate amount of \$200.0 million. It is to be used for general corporate purposes, including financing permitted acquisitions. The Company may request to increase the revolving loan commitment and the amount of the term loans by up to an additional \$250.0 million. All amounts due under the new credit facility mature upon expiration on August 24, 2017. The term loans will amortize so that 37.5 percent of the principal will be repaid over the five year term, with the balance due at maturity. The new credit facility replaces in its entirety our previous \$500.0 million credit agreement dated March 28, 2008, as amended, which was scheduled to expire in March 2013. Borrowings under the credit facility and term loan bear interest at variable rates specified therein, that for fiscal 2012 were under 2.0 percent, and the availability of borrowings is subject to our ability at the time of borrowing to meet certain specified conditions, including compliance with covenants contained in the credit agreement governing the facility.

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As of September 30, 2012, we had outstanding borrowings of \$105.0 million and undrawn letters of credit of \$5.8 million under the \$500.0 million five-year facility, leaving \$389.2 million of borrowing capacity available under the facility. The outstanding balance on the term loan was \$197.5 million at September 30, 2012, of which \$10.0 million is recognized as the current portion of the balance due.

We also have trade finance credit lines and uncommitted letter of credit facilities. These lines are associated with the normal course of business and do not currently, nor have they historically, been of a material size to the overall business.

We have \$49.4 million of senior notes outstanding at various fixed interest rates as of September 30, 2012, classified as long-term in the Consolidated Balance Sheet.

Our pension plans invest in a variety of equity and debt securities. During the fourth quarter of fiscal 2010, we contributed \$50.0 million to our primary pension plan. At September 30, 2012, our latest measurement date, our pension plans were underfunded by approximately \$81 million. Given the significant funding contribution made during fiscal 2010, we currently do not anticipate any further contributions to our primary pension plan in fiscal 2013.

As previously disclosed, we intend to continue to pay quarterly cash dividends comparable to those paid in the periods covered by these financial statements. However, the declaration and payment of dividends by us will be subject to the sole discretion of our Board and will depend upon many factors, including our financial condition, earnings, capital requirements, covenants associated with debt obligations, legal requirements and other factors deemed relevant by our Board.

We intend to continue to pursue selective acquisition candidates in certain areas of our business, but the timing, size or success of any acquisition effort and the related potential capital commitments cannot be predicted. We expect to fund future acquisitions primarily with cash on hand, cash flow from operations and borrowings, within our set limits.

During fiscal 2012, we repurchased 1.5 million shares of our common stock for \$42.4 million in the open market. As of September 30, 2012, 0.5 million shares were available for purchase under our existing board authorization, which does not have an expiration date. In October 2012, the Board approved an expansion of its previously announced share repurchase authorization by 3.5 million shares. Repurchases may be made on the open market or via private transactions, and are used for general business purposes.

We believe that cash on hand and generated from operations, along with amounts available under our credit facility, will be sufficient to fund operations, working capital needs, capital expenditure requirements and financing obligations. However, disruption and volatility in the credit markets could impede our access to capital. Our \$500.0 million revolving credit facility is with a syndicate of banks. The syndication group consists of 11 financial institutions, which we believe reduces our exposure to any one institution and would still leave us with significant borrowing capacity in the event that any one of the institutions within the group is unable to comply with the terms of our agreement.

Credit Ratings

For fiscal 2012, Standard and Poor's Rating Services and Moody's Investor Service provided a credit rating of BBB and Baa3 with stable outlooks.

Other Uses of Cash

We expect capital spending in 2013 to be between \$75 and \$80 million. Capital spending will be monitored and controlled as the year progresses.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

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Contractual Obligations, Contingent Liabilities and Commitments

To give a clear picture of matters potentially impacting our liquidity position, the following table outlines our contractual obligations as of September 30, 2012:

(Dollars in millions)	Payments Due by Period				
	Total	Less Than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Contractual Obligations					
Long-term debt obligations	\$247.5	\$10.0	\$27.5	\$160.0	\$50.0
Interest payments relating to long-term debt					
(1)	59.9	6.3	12.1	10.5	31.0
Operating lease obligations	59.8	19.7	23.2	12.4	4.5
Pension and postretirement					
health care benefit funding (2)	15.8	1.3	2.7	3.2	8.6
Purchase obligations (3)	44.6	32.7	11.5	0.4	-
Other long-term liabilities (4)	29.7	-	15.6	12.4	1.7
Total contractual cash obligations	\$458.3	\$71.0	\$92.6	\$198.9	\$95.8

(1) Interest payments on our long-term debt are projected based on the contractual rates of remaining debt securities.

(2) Given the significant funding contribution made during fiscal 2010, we currently do not anticipate any further contributions to our master pension plan in fiscal 2013.

(3) Purchase obligations represent contractual obligations under various take-or-pay arrangements executed in the normal course of business. These commitments represent future purchases in line with expected usage to obtain favorable pricing. Also included are obligations arising from purchase orders for which we have made firm commitments. As a result, we believe that the purchase obligations portion of our contractual obligations is substantially those obligations for which we are certain to pay, regardless of future facts and circumstances. We expect to fund purchase obligations with operating cash flows and current cash balances.

(4) Other long-term liabilities include deferred compensation arrangements, self-insurance reserves, and other various liabilities.

We also had commercial commitments related to standby letters of credit at September 30, 2012 of \$7.2 million.

In addition to the contractual obligations and commercial commitments disclosed above, we also have a variety of other agreements related to the procurement of materials and services and other commitments. While many of these agreements are long-term supply agreements, some of which are exclusive supply or complete requirements-based contracts, we are not committed under these agreements to accept or pay for requirements which are not needed to meet production needs. Also, we have an additional \$10.6 million of other liabilities as of September 30, 2012, which represent uncertain tax positions for which it is not possible to determine in which future period the tax liability might be settled.

In conjunction with our acquisition and divestiture activities, we have entered into certain guarantees and indemnifications of performance, as well as, non-competition agreements for varying periods of time. Potential losses under the indemnifications are generally limited to a portion of the original transaction price, or to other lesser specific dollar amounts for certain provisions. Guarantees and indemnifications with respect to acquisition and divestiture activities, if triggered, could have a materially adverse impact on our financial condition and results of operations.

We are also subject to potential losses from adverse litigation results that are not accounted for by a self-insurance or other reserves; however, such potential losses are not quantifiable at this time, and may never occur.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our accounting policies, including those described below, require management to make significant estimates and assumptions using information available at the time the estimates are made. Such estimates and assumptions significantly affect various reported amounts of assets, liabilities, revenues and expenses. If future experience differs materially from these estimates and assumptions, results of operations and financial condition could be affected. Our most critical accounting policies are described below.

Revenue Recognition

Net revenues reflect gross revenues less sales discounts and allowances and customer returns for product sales and rental revenue reserves. Revenue is evaluated under the following criteria and recognized when each is met:

- Evidence of an arrangement: An agreement with the customer reflecting the terms and conditions to deliver products or services serves as evidence of an arrangement.
- Delivery: For products, delivery is considered to occur upon receipt by the customer and the transfer of title and risk of loss. For rental services, delivery is considered to occur when the services are rendered.
- Fixed or determinable price: The sales price is considered fixed or determinable if it is not subject to refund or adjustment.
- Collection is deemed probable: At or prior to the time of a transaction, credit reviews of each customer are performed to determine the creditworthiness of the customer. Collection is deemed probable if the customer is expected to be able to pay amounts under the arrangement as those amounts become due. If collection is not probable, revenue is recognized when collection becomes probable, generally upon cash collection.

As a general interpretation of the above guidelines, revenues for health care and surgical products are generally recognized upon delivery of the products to the customer and their assumption of risk of loss and other risks and rewards of ownership. Local business customs and non-standard sales terms can sometimes result in deviations to this normal practice in certain instances; however, in no case is revenue recognized prior to the transfer of risk of loss and rewards of ownership.

For non-invasive therapy products and medical equipment management services, the majority of product offerings are rental products for which revenues are recognized consistent with the rendering of the service and use of products. For The Vest® product, revenue is generally recognized at the time of receipt of authorization for billing from the applicable paying entity as this serves as evidence of the arrangement and sets a fixed or determinable price.

For health care products and services aimed at improving operational efficiency and asset utilization, various revenue recognition techniques are used, depending on the offering. Arrangements to provide services, routinely under separately sold service and maintenance contracts, result in the deferral of revenues until specified services are performed. Service contract revenue is generally recognized ratably over the contract period, if applicable, or as services are rendered. Product-related goods are generally recognized upon delivery to the customer.

Revenue and Accounts Receivable Reserves

Revenues are presented in the Statements of Consolidated Income net of certain discounts and sales adjustments. For product sales, we record reserves resulting in a reduction of revenue for contractual discounts, as well as price concessions and product returns. Likewise, rental revenue reserves, reflecting contractual and other routine billing

adjustments, are recorded as a reduction of revenues. Reserves for revenue are estimated based upon historical rates for revenue adjustments.

Provisions for doubtful accounts are recorded as a component of operating expenses and represent our best estimate of the amount of probable credit losses and collection risk in our existing accounts receivable. We determine such reserves based on historical write-off experience by industry. Receivables are generally reviewed on a pooled basis based on historical collection experience for each receivable type and are also reviewed individually for collectability. Account balances are charged against the allowance when we believe it is probable the receivable will not be recovered. We do not have any off-balance sheet credit exposure related to our customers.

If circumstances change, such as higher than expected claims denials, payment defaults, changes in our business composition or processes, adverse changes in general economic conditions, instability or disruption of credit markets, or an unexpected material adverse change in a major customer's or payor's ability to meet its obligations, our estimates of the realizability of trade receivables could be reduced by a material amount.

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Liabilities for Loss Contingencies Related to Lawsuits

We are involved on an ongoing basis in claims, investigations and lawsuits relating to our operations, including environmental, antitrust, patent infringement, business practices, commercial transactions and other matters. The ultimate outcome of these actions cannot be predicted with certainty. An estimated loss from these contingencies is recognized when we believe it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. However, it is difficult to measure the actual loss that might be incurred related to claims, investigations and lawsuits. The ultimate outcome of these actions could have a material adverse effect on our financial condition, results of operations and cash flow.

We are also involved in other possible claims, including product and general liability, workers' compensation, auto liability and employment related matters. Claims other than employment related matters have deductibles and self-insured retentions ranging from \$150 thousand to \$1.5 million per occurrence or per claim, depending upon the type of coverage and policy period. Outside insurance companies and third-party claims administrators establish individual claim reserves and an independent outside actuary provides estimates of ultimate projected losses, including incurred but not reported claims, which are used to establish reserves for losses. Claim reserves for employment related matters are established based upon advice from internal and external counsel and historical settlement information for claims and related fees, when such amounts are considered probable of payment.

The recorded amounts represent our best estimate of the costs we will incur in relation to such exposures, but it is possible that actual costs could differ from those estimates.

Goodwill and Intangible Assets

We account for acquired businesses using the acquisition method of accounting. This method requires that the identifiable assets acquired and liabilities assumed be measured at their fair value, with goodwill being the excess value of consideration paid less the fair value of the net identifiable assets acquired. Judgments and estimates are required in the determination of fair values, including the setting of discount rates, growth rates and forecasted business results for the acquired business and portions of the acquired business, along with estimated useful lives. Changes in these judgments or estimates can have a material impact on the valuation of the respective assets and liabilities acquired and our results of operations.

We perform an impairment assessment on goodwill and other indefinite-lived intangibles annually during the third fiscal quarter, or whenever events or changes in circumstances indicate that the carrying value of a reporting unit may not be recoverable. These events or conditions include, but are not limited to, a significant adverse change in the business environment; regulatory environment or legal factors; a current period operating or cash flow loss combined with a history of such losses or a projection of continuing losses; a substantial decline in market capitalization of our stock; or a sale or disposition of a significant portion of a reporting unit.

The goodwill impairment assessment requires evaluating qualitative factors or performing a quantitative assessment to determine that a reporting unit's carrying value would be more likely than not to exceed its fair value. The qualitative goodwill impairment assessment requires evaluating factors to determine that a reporting unit's carrying value would not more likely than not exceed its fair value. As part of our goodwill qualitative testing process for each reporting unit, we evaluate various factors that are specific to the reporting unit as well as industry and macroeconomic factors in order to determine whether it is reasonably likely to have a material impact on the fair value of our reporting units. Examples of the factors that were considered included the results of the most recent impairment test, current and long-range forecasted financial results, and changes in the strategic outlook or organizational structure of the reporting units. The long-range financial forecasts of the reporting units, which are based upon management's long-term view of our markets and are used by senior management and the Board of Directors to evaluate operating performance, were

compared to the forecasts used in the prior year analysis to determine if management expectations for the business have changed. Management changes in strategic outlook or organizational structure represent internally driven strategic or organizational changes that could have a material impact on our results of operations or product offerings. Industry, market changes and macroeconomic indicators represent our view on changes outside of the Company that could have a material impact on our results of operations, product offerings or future cash flow forecasts. In the event we were to determine that a reporting unit's carrying value would more likely than not exceed its fair value, quantitative testing would be performed comparing carrying values to estimated fair values. Changes in management intentions, market conditions, operating performance and other similar circumstances could affect the assumptions used in this qualitative impairment test. Changes in the assumptions could result in impairment charges that could be material to our Consolidated Financial Statements in any given period.

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Quantitative testing involves a two-step process. The first step, used to identify potential impairment, is a comparison of each reporting unit's estimated fair value to its carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying value, applicable goodwill is considered not to be impaired. If the carrying value exceeds fair value, there is an indication of impairment and the second step is performed to measure the amount of the impairment. The second step requires us to calculate an implied fair value of goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. If the goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess.

The fair value of reporting units in the first step of a quantitative impairment process requires significant management judgment with respect to forecasted sales, gross margin and selling, general and administrative expenses, capital expenditures, the selection and use of an appropriate discount rate, the selection of comparable public companies and the determination of an appropriate control premium. In addition, the use of third-party appraisals of significant tangible and intangible assets as part of the second step of the impairment test also requires management judgment related to certain inputs and assumptions. There are inherent uncertainties related to each of the above listed assumptions and inputs, and our judgment in applying them. The use of different assumptions, estimates or judgments in either step of the process could materially increase or decrease the related impairment charge.

Retirement Benefit Plans

We sponsor retirement and postretirement benefit plans covering select employees. Expense recognized in relation to these defined benefit retirement plans and the postretirement health care plan is based upon actuarial valuations and inherent in those valuations are key assumptions including discount rates, and where applicable, expected returns on assets, projected future salary rates and projected health care cost trends. The discount rates used in the valuation of our defined benefit pension and postretirement plans are evaluated annually based on current market conditions. In setting these rates we utilize long-term bond indices and yield curves as a preliminary indication of interest rate movements, and then make adjustments to the respective indices to reflect differences in the terms of the bonds covered under the indices in comparison to the projected outflow of our obligations. Our overall expected long-term rate of return on pension assets is based on historical and expected future returns, which are inflation adjusted and weighted for the expected return for each component of the investment portfolio. Our rate of assumed compensation increase is also based on our specific historical trends of past wage adjustments.

Changes in retirement and postretirement benefit expense and the recognized obligations may occur in the future as a result of a number of factors, including changes to any of these assumptions. Our expected rate of return on pension plan assets was 7.0 percent for fiscal 2012 and 7.5 percent for 2011 and 2010. At September 30, 2012, we had pension plan assets of \$246.8 million. A 25 basis point increase in the expected rate of return on pension plan assets reduces annual pension expense by approximately \$0.6 million. Differences between actual and projected investment returns, especially in periods of significant market volatility, can also impact estimates of required pension contributions. The discount rate for our retirement obligation was 4.1 percent in 2012, 4.6 percent in 2011 and 5.1 percent in 2010. The discount rate for our postretirement obligation may vary up to 100 basis points from that of our retirement obligations. For each 50 basis point change in the discount rate, the impact to annual pension expense ranges from \$2.0 million to \$2.1 million, while the impact to our postretirement health care plan expense would be less than \$0.1 million. Impacts from assumption changes could be positive or negative depending on the direction of the change in rates.

Income Taxes

We compute our income taxes using an asset and liability approach to reflect the net tax effects of temporary differences between the financial reporting carrying amounts of assets and liabilities and the corresponding income tax amounts. We have a variety of deferred tax assets in numerous tax jurisdictions. These deferred tax assets are subject to periodic assessment as to recoverability and if it is determined that it is more likely than not that the benefits will not be realized, valuation allowances are recognized. We have recorded valuation allowances against certain of our deferred tax assets, primarily those related to foreign tax attributes in countries with poor operating results and certain other domestic tax attributes. In evaluating whether it is more likely than not that we would recover these deferred tax assets, future taxable income, the reversal of existing temporary differences and tax planning strategies are considered.

We believe that our estimates for the valuation allowances recorded against deferred tax assets are appropriate based on current facts and circumstances. We currently have \$8.6 million of valuation allowances on deferred tax assets, on a tax-effected basis, primarily related to foreign tax attributes.

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We account for uncertain income tax positions using a threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The difference between the tax benefit recognized in the financial statements for an uncertain income tax position and the tax benefit claimed in the tax return is referred to as an unrecognized tax benefit.

We also have on-going audits in various stages of completion with the IRS and several state and foreign jurisdictions, one or more of which may conclude within the next 12 months. Such settlements could involve some or all of the following: the payment of additional taxes, the adjustment of certain deferred taxes and/or the recognition of unrecognized tax benefits. The resolution of these matters, in combination with the expiration of certain statutes of limitations in various jurisdictions, make it reasonably possible that our unrecognized tax benefits may decrease as a result of either payment or recognition by approximately \$3 to \$7 million in the next twelve months, excluding interest.

Guarantees

We routinely grant limited warranties on our products with respect to defects in material and workmanship. The terms of these warranties are generally one year, however, certain components and products have substantially longer warranty periods. We recognize a reserve with respect to these obligations at the time of product sale, with subsequent warranty claims recorded directly against the reserve. The amount of the warranty reserve is determined based on historical trend experience for the covered products. For more significant warranty-related matters which might require a broad-based correction, separate reserves are established when such events are identified and the cost of correction can be reasonably estimated.

Inventory

We review the net realizable value of inventory on an ongoing basis, considering factors such as excess, obsolescence, and other items. We record an allowance for estimated losses when the facts and circumstances indicate that particular inventories will not be sold at prices in excess of current carrying costs. These estimates are based on historical experience and expected future trends. If future market conditions vary from those projected, and our estimates prove to be inaccurate, we may be required to write down inventory values and record an adjustment to cost of revenues.

Recently Issued Accounting Guidance

For a summary of recently issued accounting guidance applicable to us, see Note 1 of Notes to Consolidated Financial Statements included under Part II, Item 8 of this Form 10-K.

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Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks, including fluctuations in interest rates, the impact of the current economic downturn, collection risk associated with our accounts and notes receivable portfolio, including the effects of various austerity measures initiated by some governmental authorities, and variability in currency exchange rates. We have established policies, procedures and internal processes governing our management of market risks and the use of financial instruments to manage our exposure to such risks.

We are subject to variability in foreign currency exchange rates in our international operations. Exposure to this variability is periodically managed primarily through the use of natural hedges, whereby funding obligations and assets are both managed in the local currency. We, from time-to-time, enter into currency exchange agreements to manage our exposure arising from fluctuating exchange rates related to specific and forecasted transactions. We operate this program pursuant to documented corporate risk management policies and do not enter into derivative transactions for speculative purposes. The sensitivity of earnings and cash flows to variability in exchange rates is assessed by applying an appropriate range of potential rate fluctuations to our assets, obligations and projected results of operations denominated in foreign currencies.

Our currency risk consists primarily of foreign currency denominated firm commitments and forecasted foreign currency denominated intercompany and third-party transactions. At September 30, 2012, we had outstanding foreign exchange derivative contracts in notional amounts of \$5.3 million with the fair value of these contracts approximating original contract value. The maximum length of time over which we hedge transaction exposure is 15 months. Derivative gains/(losses), initially reported as a component of Accumulated Other Comprehensive Income (Loss), are reclassified to earnings in the period when the forecasted transaction affects earnings.

We hold auction rate securities, for which the market continues to experience liquidity issues. Due to the lack of liquidity, we have obtained guidance from our investment advisors as to the current fair value of our portfolio. If current market conditions do not improve, or if they worsen, the result could be further temporary unrealized losses or impairments. At September 30, 2012, we had \$7.3 million remaining in auction rate securities.

Our pension plan assets, which were approximately \$247 million at September 30, 2012, are also subject to volatility that can be caused by fluctuations in general economic conditions. Our pension plans were underfunded at September 30, 2012 by approximately \$81 million, a slight increase over the prior year based upon a decrease in the discount rate which increased the overall pension obligation. During the fourth quarter of fiscal 2010, we contributed \$50.0 million to our primary pension plan. Continued market volatility and disruption could cause declines in asset values and low interest rates could continue to keep our pension obligation high. Should such trends continue, we may need to make additional pension plan contributions and our pension expense in future years may increase. Investment strategies and policies are set by the plan's fiduciaries. Long-term strategic investment objectives utilize a diversified mix of equity and fixed income securities to preserve the funded status of the trusts and balance risk and return. The plan fiduciaries oversee the investment allocation process, which includes selecting investment managers, setting long-term strategic targets and monitoring asset allocations. Target allocation ranges are guidelines, not limitations, and plan fiduciaries may occasionally approve allocations above or below a target range or elect to rebalance the portfolio within the targeted range.

Trust assets are invested subject to the following policy restrictions: short-term securities must be rated A2/P2 or higher; all fixed-income securities shall have a credit quality rating "BBB" or higher; investments in equities in any one company may not exceed 10 percent of the equity portfolio.

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Financial Statements:	
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<u>Report of Independent Registered Public Accounting Firm</u>	39
<u>Statements of Consolidated Income for the fiscal years ended September 30, 2012, 2011 and 2010</u>	40
<u>Consolidated Balance Sheets at September 30, 2012 and 2011</u>	41
<u>Statements of Consolidated Cash Flows for the fiscal years ended September 30, 2012, 2011 and 2010</u>	42
<u>Statements of Consolidated Shareholders' Equity and Comprehensive Income for the fiscal years ended September 30, 2012, 2011 and 2010</u>	43
<u>Notes to Consolidated Financial Statements</u>	44
Financial Statement Schedule for the fiscal years ended September 30, 2012, 2011 and 2010:	
<u>Schedule II — Valuation and Qualifying Accounts</u>	81

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes thereto.

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting for Hill-Rom Holdings, Inc. ("we" or "our"). Our internal control over financial reporting is a process designed, under the supervision of our principal executive, principal financial and principal accounting officers, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our Consolidated Financial Statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes policies and procedures that:

- 1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- 2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of our Consolidated Financial Statements in accordance with generally accepted accounting principles and that our receipts and expenditures are being made only in accordance with authorizations of our management and our Board of Directors; and
- 3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our Consolidated Financial Statements.

Because of its inherent limitations, our internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management performed an assessment of the effectiveness of our internal control over financial reporting as of September 30, 2012 using criteria established in the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that criteria, management concluded that we maintained effective internal control over financial reporting as of September 30, 2012.

We have excluded Völker group and Aspen Surgical Products Holding, Inc. from our assessment of internal control over financial reporting as of September 30, 2012, because they were acquired by us in separate purchase business combinations during 2012. Völker group is a wholly-owned subsidiary whose total assets and total revenues represent 5 percent and 4 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended September 30, 2012. Aspen Surgical Products Holding, Inc. is a wholly-owned subsidiary whose total assets and total revenues represent 15 percent and 1 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended September 30, 2012.

The effectiveness of our internal control over financial reporting as of September 30, 2012 has been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm, who also audited our Consolidated Financial Statements, as stated in their report included herein.

/s/ John J. Greisch
John J. Greisch
President and Chief Executive Officer

/s/ Mark J. Guinan
Mark J. Guinan
Senior Vice President and Chief Financial Officer

/s/ Richard G. Keller
Richard G. Keller
Vice President, Controller and Chief Accounting Officer

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Hill-Rom Holdings, Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Hill-Rom Holdings, Inc. and its subsidiaries at September 30, 2012, and 2011, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2012, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control over Financial Reporting, management has excluded Völker group and Aspen Surgical Products Holding, Inc. from its assessment of internal control over financial reporting as of September 30, 2012, because they were acquired by the Company in separate purchase business combinations during

2012. We have also excluded Völker group and Aspen Surgical Products Holding, Inc. from our audit of internal control over financial reporting. Völker group is a wholly-owned subsidiary whose total assets and total revenues represent 5% and 4%, respectively, of the related consolidated financial statement amounts as of and for the year ended September 30, 2012. Aspen Surgical Products Holding, Inc. is a wholly-owned subsidiary whose total assets and total revenues represent 15% and 1%, respectively, of the related consolidated financial statement amounts as of and for the year ended September 30, 2012.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Indianapolis, Indiana
November 15, 2012

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Hill-Rom Holdings, Inc. and Subsidiaries
STATEMENTS OF CONSOLIDATED INCOME
(Dollars in millions except per share data)

	Years Ended September 30		
	2012	2011	2010
Net Revenues			
Capital sales	\$1,198.2	\$1,119.0	\$996.6
Rental revenues	436.1		